

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 30, 2010

Mr. David Ghiorso
Acting Finance Manager
Sacramento Area Council of Governments
1415 L Street, Suite 300
Sacramento, CA 95814

Re: Sacramento Area Council of Governments
Audit of Indirect Cost Allocation Plan for Fiscal Year 2009/10
File Number: P1591-0051

Dear Mr. Ghiorso:

We have audited the Sacramento Area Council of Government's (SACOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2010, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. SACOG management is responsible for the fair presentation of the ICAP. SACOG proposed an indirect cost rate of 75.48 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SACOG. Therefore, we did not audit and are not expressing an opinion on the SACOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SACOG, as well as evaluating the overall presentation

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of SACOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of SACOG's Overall Work Program for FY 2009/10, a review of SACOG's single audit report for FY ended June 30, 2008, inquiries of SACOG personnel, reliance placed on the single audit report for the FY ended June 30, 2008, and prior audit field work performed by the Department staff in September 2004. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to David Ghiorso, SACOG Acting Finance Manager on June 29, 2010. Our findings and recommendations take into consideration of SACOG's response to our draft finding. Our findings and recommendations, a summary of the SACOG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, SACOG's ICAP for the FY ended June 30, 2010 is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 75.48 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

SACOG requested a provisional rate of 55.22 percent on September 30, 2009, for FY 2009/10. The provisional rate was approved on October 21, 2010. As agreed to in the provisional rate request, within 30 days of issuance of this audit report, SACOG must reconcile all prior reimbursed claims under the provisional rate with the final approved rate. SACOG will include any underpayments on the next billing to the Department. Interest may not be claimed on the underpayments.

Audit Findings

Finding 1:

SACOG included direct legal charges associated to projects within the indirect cost pool. SACOG had exhausted funds as well as had grants which would not allow legal costs to be billed to grants received. To recover a portion of legal costs, SACOG incorrectly included

legal costs in the indirect pool. SACOG needs to obtain other sources of revenue to reimburse direct / unallowable legal costs.

In addition, direct costs associated to their rideshare program and payments to Women's Transportation Seminar were included within the indirect cost pool. Even though amounts are immaterial these costs should be classified as direct or unallowable and excluded from the indirect cost pool.

2 CFR Part 225, Appendix A, Section E, "direct costs" states, direct costs are those that can be identified specifically with a particular final cost objective.

2 CFR Part 225, Appendix E, Section A. 1, states in part, that a cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances has been assigned to a federal award as a direct cost.

Recommendation:

We recommend SACOG properly identify direct and unallowable costs and exclude these costs from their indirect cost pool in future indirect cost allocation plans.

Auditee Response

The SACOG concurred with the finding and recommendation.

Analysis of Response

The finding and recommendation remain.

Finding 2:

SACOG included unallowable board of director retreat costs, birthday cards, water costs and costs associated to a fee paid for a Comprehensive Annual Financial Report (CAFR) award within the indirect cost pool. It was also noted SACOG included unallowable lobbying costs for Association of Metropolitan Planning Organization (AMPO) and California Transit Association (CTA) within the indirect cost pool. The membership organizations which provide lobbying activities did not indentify the applicable amounts associated to regular membership dues versus lobbying, therefore, the total membership dues associated to the above organization are deemed unallowable lobbying costs.

2 CFR Part 225, Appendix B, #19 "general government expenses" states in part that general costs of government are unallowable, including the salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction.

2 CFR Part 225, Appendix A, C. 2 “reasonable costs” states, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

2 CFR Part 225, Appendix B, #20 “goods or services for personal use” states, costs of goods or services for personal use of the governmental unit’s employees are unallowable regardless of whether the cost is reported as taxable income to the employee.

2 CFR Part 225, Appendix B, #24 “lobbying” states, the cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable costs.

Recommendation:

We recommend SACOG ensure they have proper internal controls to identify unallowable costs and exclude the costs from the indirect cost pool in future indirect cost allocation plans.

Auditee Response

The SACOG concurred with the finding and recommendation.

Analysis of Response

The finding and recommendation remain.

Finding 3:

SACOG incorrectly includes expenditures in their indirect cost pool and financial statements that are related to subsequent FYs. Our review of SACOG accounts found that SACOG is not applying accrual accounting procedures to all costs. We found costs covering more than one FY being charged to the year the cost was paid and not in the year the cost was incurred. SACOG’s financial statement states that the Governmental Fund financial statement is reported using the accrual basis of accounting. NOTE A, III. of the financial statement in part reads, “Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flow.”

Under Generally Accepted Account Principles (GAAP) accrual accounting requires that expenses are recorded when incurred and revenue when earned.

The Master Agreement, Section 1, paragraph 2, between SACOG and the State requires that SACOG follow GAAP, “Allowable incurred costs that are eligible for reimbursement by STATE are only those that are treated by MPO’s accounting system in accordance with Generally Accepted Accounting Principles as accrued . . .”.

Recommendation:

We recommend SACOG ensure that their financial statements are in accordance with GAAP for all accounts and that SACOG improve and/or ensure compliance with their accounting policies and procedures to ensure that all costs are properly posted in their accounting records.

Auditee Response

The SACOG concurred with the finding and recommendation.

Analysis of Response

The finding and recommendation remain.

This report is intended solely for the information of the SACOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). This report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 3, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Carvin Seals Jr., Auditor, at (916) 323-7965 or Clifford R. Vose, Audit Manager, at (916) 323-7917.

Original signed by:

MARYANN CAMPBELL-SMITH
Chief, External – Local Governments

Attachment

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation
- David Saia, LAPM/LAPG Coordinator, Division of Local Assistance
- Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local Assistance
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- John Hoole, Senior Transportation Engineer, Office of Local Assistance, Division of Planning and Local Assistance, District 3
- Susan Wilson, Associate Transportation Planner, District 3
- Dara Wheeler, Senior Environment Planner, Division of Transportation Planning

SACRAMENTO AREA COUNCIL OF GOVERNMENTS (SACOG)
INDIRECT COST ALLOCATION PLAN

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Sacramento Area Council of Governments and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/09 to 6/30/10	75.48%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2010 Budgeted Indirect Costs	\$ 3,431,079
Carry Forward from FY 2008	<u>344,986</u>
Estimated FY 2010 Indirect Costs	\$ 3,776,065
FY 2010 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 5,002,707
FY 2010 Indirect Cost Rate	75.48%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2010 (July 1, 2009 to June 30, 2010) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Sacramento Area Council of Governments

Signature: [Signature]

Signature: [Signature]

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Karen Wilcox

Name of Official: Karen Wilcox

Title: Director of Finance

Title: Director of Finance

Date of Execution: July 16, 2009

Telephone No.: 916 340 6210

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature [Signature]

Signature [Signature]

Reviewed and Approved by:

Reviewed and Approved by:

Clifford R Vose

Carvin Seals Jr.

Name of Audit Manager

Name of Auditor

Title: Audit Manager

Title: Auditor

Date: 30 June 2010

Date: 30 June 2010

Phone Number: (916) 323-7917

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